

July 2007



Highlights of GAO-07-753, a report to congressional committees

## RETIREMENT DECISIONS

### Federal Policies Offer Mixed Signals about When to Retire

#### Why GAO Did This Study

While many factors influence workers' decisions to retire, Social Security, Medicare, and pension laws also play a role, offering incentives to retire earlier and later. Identifying these incentives and how workers respond can help policy makers address the demographic challenges facing the nation.

GAO assessed (1) the incentives federal policies provide about when to retire, (2) recent retirement patterns and whether there is evidence that changes in Social Security requirements have resulted in later retirements, and (3) whether tax-favored private retiree health insurance and pension benefits influence when people retire. GAO analyzed retirement age laws and SSA data and conducted statistical analysis of Health and Retirement Study data. Under the Comptroller General's authority, GAO has prepared this report on its own initiative.

#### What GAO Recommends

Congress may wish to consider changes to law, programs, and policies that support retirement security, including retirement ages, in order to provide a set of signals that work in tandem to encourage work at older ages.

GAO received comments from HHS, and technical comments from SSA and the departments of Labor and the Treasury, which were incorporated where appropriate.

[www.gao.gov/cgi-bin/getrpt?GAO-07-753](http://www.gao.gov/cgi-bin/getrpt?GAO-07-753).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara Bovbjerg at (202) 512-7215 or [bovjergb@gao.gov](mailto:bovjergb@gao.gov).

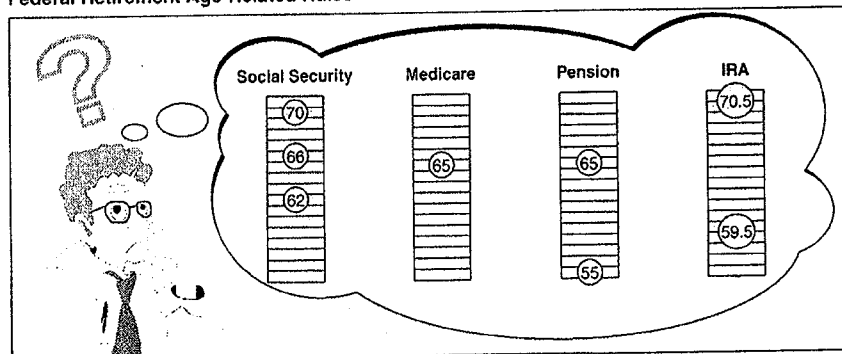
#### What GAO Found

Federal policies offer incentives to retire both earlier and later than Social Security's full retirement age depending on a worker's circumstances. The availability of reduced Social Security benefits at age 62 provides an incentive to retire well before the program's age requirement for full retirement benefits; however, the gradual increase in this age from 65 to 67 provides an incentive to wait in order to secure full benefits. The elimination of the Social Security earnings test in 2000 for those at or above their full retirement age also provides an incentive to work. Medicare's eligibility age of 65 continues to provide a strong incentive for those without retiree health insurance to wait until then to retire, but it can also be an incentive to retire before the full retirement age. Meanwhile, federal tax policy creates incentives to retire earlier, albeit indirectly, by setting broad parameters for the ages at which retirement funds can be withdrawn from pensions without tax penalties.

Nearly half of workers report being fully retired before turning age 63 and start drawing Social Security benefits at the earliest opportunity—age 62. Early evidence, however, suggests small changes in this pattern. Traditionally, some workers started benefits when they reached age 65. Recently, workers with full retirement ages after they turned 65 waited until those ages to start benefits. Also, following the elimination of the earnings test, some indications are emerging of increased workforce participation among people at or above full retirement age.

GAO's analysis indicates that retiree health insurance and pension plans are strongly associated with when workers retire. After controlling for other influences such as income, GAO found that those with retiree health insurance were substantially more likely to retire before the Medicare eligibility age of 65 than those without. GAO also found that men with defined benefit plans were more likely to retire early (before age 62) than those without, and men and women with defined contribution plans were less likely to do so.

#### Federal Retirement Age-Related Rules



Sources: GAO (analysis); Art Explosion (images).

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